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Spring November 9, 1999

# 1999 Valuing Business Ethics Presentation to Victoria University Business Faculty: PPT

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# Valuing Business Ethics

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# Contexts

- Why does the qualifier ‘business’ affect our view of ethics?
- Is there a difference between what is regarded as ethical for one self and for one’s employer?
- Does one make different ethical decisions within a business context and outside it?

# Factors affecting this difference

- Organisational Culture
- Power relationships
- Personal value systems and beliefs
- Social values context

# Social context issues over time

- Cooperative and supportive ethos ~ WW II
- Implied reference to a Judeo-Christian official value system
- Mutual society overhang
- Vanished with the ideology of market theories
- The search for alternative frameworks

# If there were no God would we not have to invent him?

- The role of the absolute or consensual values referent
- What can we now look for?
- The rise of utilitarianism
- Alternative values: the Green and sustainability ethos
- Discount rates and value systems...

# Changes in the environment

- More educated workforce
- Growth of knowledge industries
- Decline in loyalty and trust
- Surveillance and monitoring: what are the values?
- Back to Fordism?
- Cultural relativism for negotiated values

# Experiments

- Require a cultural relativist value system
- Negotiated, contextually dependent, results
- Allow correlational tests of social and business/societal values
- Provides for different ethical decisions for an individual with different organisations.
- Test via differences in organisations related to a homogenous group



# An ethics survey

- The ACS Ethics Task Force survey
- Why is the stand alone survey of limited value?
- Adding a measure of organisational culture
- Assess the joint variations in results by individuals and organisations
- Test if organisational culture covaries with individual ethical choices

# Measuring the utility of a specific issue

- Surveillance in the workplace
- Reciprocal views and tradeoffs
- Stated preference and utility models
- Asymmetries in utility

# Summary

- Social culture influences business ethics
- Organisational culture affects individual ethics
- If these are true, we can in principle test for the utility of different ethical tradeoffs
- If there is no commonly accepted reference framework, then ethics is an **experimental** study

This talk had its genesis in a long telephone discussion with the Director of the Centre, which canvassed a range of perspectives and hypotheses about the emergence of business ethics as a matter of current practical concern. The presentation will develop the thesis and then suggest some appropriate ways of actually valuing some aspects of business ethics. The catch is that unless a culturally relativist approach is accepted, then such experiments are not meaningful. If the level of vocal disagreement by the audience with this thesis is strong enough, it will have been a successful seminar.

There are major differences between the manner in which the words morals and ethics are used, and even more when they are qualified by the term 'business'.

It is interesting how the addition of the qualifier 'business' seems to change our perceptions of the terms, almost as if they were no longer applicable to people, and in some way are different to the terms in application to individuals.

Why does this happen? Is there difference between what people regard as moral or ethical for themselves and for their employers? Are there behaviours that they would comply with in the work place and not outside it? Are there actions and decisions made in a business context that they would not make in their own personal context outside the business or organisational environment?

The answers to at least some of these questions are often: **Yes**. Yet these decisions and actions are undertaken by the same people as make different decisions and undertake different actions in their own personal environment.

Why? What is different?

There are two factors that differ substantially:

- Organisational Culture
- Power Relationships

The former endorses particular types of behaviour and 'the ways we do things round here', while the latter places an additional tension between personal judgements and the additional consequences of failing to act in a manner to produce the profit or advantage outcomes necessary for the employer. These two factors are different aspects of social pressures. Perhaps there is a further factor, also inducing similar shifts for personal perspective? The social environment in which both organisations and individuals operate is such a context, and provides similar external and contextual reinforcements and conditioning to organisations and individuals as Organisational Culture does to individuals within an organisation.

Broad social perspectives in English (or approximately English) speaking nations since World War II has been the shift from nation building (or rebuilding) to micro-economic and macroeconomic competition as the prime paradigm for distributing the wealth of nations within their borders. This shift has in, for example, the UK taken place in parallel with a fading away of the social collusion that adopted a broad Christian framework of values as a social interaction rationale. This shift has also occurred in some other English speaking countries, but not all.

This shift arose at about the time when the first fully post-WWII generation began to exert their influence into society, but was catalysed in the UK by the Thatcher regime, with the mantra 'that there is no society, only individuals (and those in mutual competition. This broad misinterpretation of Adam Smith's 'Rational Man' has been more recently been matched by the implementation of the Benthamite Panopticon, but more of that shortly. The effect of the huge changes induced by the Thatcher

Governments in the UK seems, in hindsight, to have allowed a whole society to look at the mutual values that were held, and to see that they were simply no longer operative, and for over a decade this absence was reinforced by a series of policies which followed this declaration by Thatcher.

It was as if a consensual vision of a mutual society had floated on long after the values on which such a view was founded had faded away from individual currency – and, once called on to speak up, had simply vanished – leaving nothing but The Market (and of course the unspoken issues of managing market power and providing an acceptable basis for redistribution of wealth). Utilitarianism had picked up the reins from the previous basis for socially acceptable values. The balance of expectation was set to change – possibly irreversibly, and global market pressure arrived a few years later to reinforce this general word view

A logical consequence of this hypothesis is that government would then retreat to regulatory frameworks as the seat of exercised power, rather than the direct investment and interventionist role required by the 'old' social responsibility value framework socially ascribed and validated by largely Judeo-Christian world views.

This is an example of the social context redefining the value system used as a framework for interchange, and also demonstrates how fragile it is once a cold light (and the equivalent of a cold shower) is applied, once the founding framework has faded. The common trials of wars and rationing (which lasted until the late 1950's) had left a degree of mutual reliance and both commonality and equity in sharing privation in the social context which fitted well with a broadly Judeo-Christian value framework, but which had its roots in shared problems and dangers.

Analogies can be found in the development of Australian society since the second world war (WWII), but the demonstration of the importance of framework, context and reinforcement of a particular faith is the point at issue here. The language and the modelling assumptions of Jacobsen quasi-equilibrium models of economic systems (such as the ORANI model built by the Monash Centre for Policy Studies) now provide a similar foundation framework for consensus between Government and many

organisations outside. Such frameworks simply do not encompass or address many of the values previously held as being worth spending significant social resources upon. This replacement of previous models by a broad political and intellectual consensus based on these and similar econometric assumptions have visibly narrowed and impoverished public values debate on the role of government.

This provides us with the first step along the road I outlined at the beginning of this talk, by drawing a link between basic social consensual agreements on what the role of government and individuals should be. This closely echoes Thatchers famous comments, but raises the question: so what are the faults in what has now largely replaced the previous framework for social values legitimisation? How long with the ethical standards still hanging over from a previous generation have any influence in the way in which the community and its agencies do their business?

One would then predict that the first step towards a new framework would be to recast ethics into a Utilitarian mould. This would raise questions such as:

- Are business ethics good commercial sense?

They are exactly what we are now hearing proposed. The validity of such assertions or experiments are not the issue, it is that utilitarianism is being used as the basis for attempting to re-establish the legitimacy of ethical behaviours.

There is an alternative framework for ethical behaviour which has interesting parallels with utilitarianism. It is broadly known as the 'green' movement, which in practice includes sustainability as a core value as well as environmental conservation and valuation as central themes.

Its links with utilitarianism are strong. The classical argument, put so well by Baumol in the 1960's, that the public sector discount rate for project evaluation should be lower than the commercial rate in view of the long term nature of the investments. This is an issue quite distinct from the choice of public or private sector financing of projects, and is closely aligned with the longer horizon and multiple generation responsibilities of

governments. The Greens hold a similar value system, whereby actions should not be undertaken unless the long term costs are brought fully to account.

The addition to the business and fiscal similarities is that some of the actions valued are those that do not consume or wipe out non-renewable resources (such as clean air, disappearing species etc) even over a long term horizon.

There is another quite distinct value that has a real economic interpretation, and has the strength of an ethical standard for those sharing Green values" namely that we should pay to conserve non renewable resources such as wilderness – even if we never access or use it ourselves. This commonality of view is supported by numerous studies where people are asked to pay towards a park or other such good, simply to stop it from becoming unavailable in future. Such conjoint valuations are backed up by real expenditures, demonstrated by the fund raising successes when aimed in such directions.

These ethical frameworks have immediate and visible impacts on business, and the growth of ethical investment demonstrates. The impact of campaigns on Green principles have even disturbed the huge McDonalds franchise.

It is not difficult to demonstrate that broad ethical aspirations are widely held in the community, and not dependent on Judeo Christian traditions. However the sustainability framework says little about the means of achievement of any specific 'ethical' goal. It is a sound theological principle that asserts that the ends do not justify the means, and this concept has wide understanding in the community. 'Whatever it takes' is an ethos that requires some moderation or regulation for a society to operate successfully.

Once again, the utilitarian arguments can be used to provide an explanatory framework for many aspects of good business ethics. Trust is a key factor in operating organisations at best effectiveness, and certainly exceeds the simple assertion of power as means of motivation. The Fordist framework of routinisation lends itself to hierarchical power structures, and the classical Weberian bureaucracy is designed to make any individual



dispensable as they operate as functionaries in a position rather than a self initiating participant in the organisation. Such Fordist structures require little trust to operate reasonably well, although some human relations work can significantly improve productivity.

We now have an environment where information is becoming more widely available, and the community has a level of education sufficient to make them able to use it. Knowledge workers are slowly accreting individual powers of choice in where they devote their efforts, and as intellectual property grows in importance the power of such workers grows with it.

To maintain such works in effective operation requires trust on both sides, a commodity in distinctly short supply in many current organisations. This is an operational and utilitarian justification for exerting trust – an aspect of ethical behaviour - between parties in an employment relationship.

The discussion to this point has focussed on frameworks for ethical values. Several have been identified in addition to the Judeo- Christian tradition, and others could also be found. The common factor is the use of utilitarianism to provide the organising principle for these alternative ethical frameworks.

There is a distinct trend towards seeking out universal organising principles to replace the ideas of God as a final arbiter (or referent) as to what comprises 'good; or 'ethical behaviour. There are extensive arguments that there are no such universal referents, and that all knowledge (of which ethics is a part) is determined by social discourse, and the outcomes must vary depending on the context of such discourse. This is the foundation of cultural relativism, which denies a universal referent and places an equal weight on any negotiated outcome as being equally valid as any other negotiated between different groups.

This is a powerful framework inherently inimical to and at odds with agreed ethical standards. The logical extension of this framework is that, in the absence of any formal ethical referent, the ethical standards and behaviours that people will display in

business and elsewhere will vary depending on the ethical or cultural climate of each organisation with which they are dealing – or at a broader level, will be influenced by the organisational climate of the organisation who employs them.

This is a useful way of expressing these arguments, because it can be directly to some tests. There are two different lines of approach:

- Different decisions taken by the same individual when working with different organisations
- Different decisions made in comparable situations by otherwise comparable people working within different organisations

In the first case we have an implied hypothesis that the individual has standards of ethical behaviour that will depend on the organisation with which he or she is dealing (perhaps one might cite people who feel that cheating on their tax is an acceptable way of interacting with the tax office, while being extremely careful and honourable when dealing with other people's money when entrusted to them).

A major difficulty of pursuing this line is that people usually interact with people, not with organisations per se, although the move to electronic and automated transactions has made this less frequent – and one might test if people are less ethical when dealing with a faceless computer or with a person. This is a clearly testable hypothesis. It is interesting to note that the sheer lack of trust of such transactions is now widely accepted to be the major blockage to the growth of electronic commerce. The links between trust and ethical behaviour are clear, although the reasons for responses are not.

The second hypothesis is probably more easily tested. It requires a group of people from a coherent group (such as the members of a professional society) where a formal Code of Ethics exists to cover the profession that they belong to, and so, as a first approximation, this provides a comparable group of people. A series of progressively more ethically testing questions can be constructed, tailored to the business environment of this professional community, and a survey carried out on this group.

This approach offers a real opportunity to assess the degree to which organisational cultures affect individual ethical choices. It does not mean that these choices represent the ethics of the individual respondents under this model, as we have explicitly stated that the individual will negotiate his/her ethical decisions as a function of the organisational culture of the organisation with which he/she is dealing or works for.

To do this work would require some measure of the organisational culture or climate of the organisations involved. There are many such instruments, but comparatively few have shown consistent statistical reliability. One of the better-established options is the Organisational Culture Inventory (OCI) marketed by Human Synergistics in the US, New Zealand and Australia.

A study of this kind is in the advanced planning stages by the Australian Computer Society Ethics Task Force. The ethics instrument is fairly simple, but as it has been used in two countries already it has been decided to use it again to obtain Australian information in a comparable form. When it was done by de Montfort University in the UK, it was set up as a web based survey, offering people the chance to identify themselves and participate further. The results are therefore interesting, but have a number of evident and implicit response biases. We are proposing to use a stratified sample mail out survey to overcome this, and are negotiating to gain agreement to add the OCI to allow some initial work on the second hypothesis – that people respond. The core questions posed in the survey instrument used by de Montfort is given as an appendix to the present paper.

This addresses the first set of questions: the influence of organisational environments on ethical responses of individuals (note Question 21), but does not provide a basis for evaluating the importance of the outcomes. To move forward to this stage, a very carefully defined and restricted question needs to be chosen, and an experiment designed accordingly around this issue.

The next stage of refinement is to assess the utility of various ethical contexts. This is not a straightforward matter, and what is proposed here is a very small and exploratory

step along the way.

A useful jumping of point for this stage is the question on surveillance (Question 14) in the de Montfort survey. The points of view of the watcher and the surveyed would normally be expected to differ substantially on this matter. Employer organisations have concerns about shrinkage, safety and monitoring of the workforce and any visitors. The employees have concerns at the impact of such surveillance when applied to themselves. It is telling that in most studies of workplace surveillance managers object to the same surveillance regime being applied to them as they regard as appropriate to apply to their employees.

This asymmetry hints at significant problems: particularly in the matter of levels of trust. Only under very special circumstances will surveillance provide a convincing message of trust of the employee. A clear message about the low expected standards of ethical behaviour expected of the staff are sent by the presence of visible surveillance – and even more so when covert methods are discovered to be in use.

While this situation is clearly appropriate for testing the hypothesis of mutually determined levels of ethical behaviour, today I wish to take a different tack. Surveillance is in some cases a condition of employment, and one might hypothesise – using the contextual approach to ethical behaviours discussed earlier – that both employers and employees trade off the ethical aspects of surveillance against other factors. While the employer sets the framework, the employee is (in principle) free to make these tradeoffs in employment decisions.

How would this work?

Ideally we should present to the subjects a series of alternatives, all of which are not fully satisfactory, and develop a structured series of tradeoffs between – say – employment with different levels of surveillance, different levels of fiscal compensation, and different levels of some other employment factor such as working hours. A carefully constructed orthogonal set of such combinations can be used to determine the utility functions for the respondents. These can be estimated using multinomial logit

techniques to produce a choice model from these results, and thus obtain the implied value of avoiding surveillance.

This has some intrinsic interest, but if the same experiment is done on the employer side the results are unlikely to be the same.

These tradeoffs are of considerable interest for a variety of reasons, not only for ethical concerns. However this approach allows is to approach the question of degree in ethically difficult tradeoffs. Only if a culturally relative framework is accepted the question of degree a relevant issue. If it is, this is a practical approach.

Do we have a common agreement of an ethical framework independent of organisational cultures? Between individuals? This is an assumption of the Judeo-Christian context – but not of others.

Perhaps ethics is an experimental subject after all.

**De Montfort University IT Ethics Survey Core Questions (2)**

**13. When disagreements arise between development personnel and those affected by the system, it is the project manager who should have the final say.**

**14. Employers are entitled to use electronic surveillance to monitor employees' performance without their consent.**

**15. Providing a systems development project provides me with an interesting challenge, I do not care about its overall objectives or purpose.**

**16. It is acceptable for me to make unauthorised copies of commercial software for my own private use.**

**17. My organisation's security arrangements are sufficient to ensure that information held on its computer systems is safe from unauthorised access from internal sources.**

**18. My organisation's security arrangements are sufficient to ensure that information held on its computer systems is safe from unauthorised access from external sources.**

**19. Organisations should develop and administer an ethics awareness programme for all employees.**

**20. It is acceptable for a software contractor, provided with a brief specification, to go ahead and develop the system knowing that in the future re-work under another contract will be essential.**

**21. Consideration of the overall working environment is not part of the IS professionals responsibility.**

## De Montfort University IT Ethics Survey Core Questions (1)

Strongly Agree	---> ○○○○○○ ←	Strongly Disagree
1. It is acceptable for me to make unauthorised copies of commercial software to use at work.		
2. I would refuse to work on a project that I considered to be unethical.		
3. Ongoing consultation with representatives of all those affected should occur throughout the information systems development life cycle.		
4. It is acceptable to use my employer's computing facilities for my own non-profit-making activities if this has no adverse affect on my employer.		
5. It is acceptable to use my employer's computing facilities for my own profit-making activities if this has no adverse affect on my employer.		
6. If an organisation has purchased/developed software for use in the office, it is acceptable for employees to make unauthorised copies of this software for use at home.		
7. I think that all organisations should require all employees to abide by a code of professional ethics.		
8. If a project is significantly behind schedule or over budget, it is acceptable to cut down on testing effort.		
9. Employees should be allowed to recreate a product/program/design for another organisation if they change jobs and are no longer employed by the organisation who paid them to create it.		
10. It is acceptable for me to use other employees' access codes with their permission to access data normally hidden from me.		
11. It is acceptable for me to use other employees' access codes without their permission to access data normally hidden from me.		
12. Employees who violate their organisation's code of professional ethics should be appropriately disciplined.		